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# THE CHINESE “*GO GLOBAL*” POLICY AND THE PORTUGUESE KINSHIP

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## INTRODUCTION

Emerging from a long period of closeness to the world and defensive diplomacy Kurlantzick (2007), the Chinese government actively encourages their domestic enterprises to go global with the implementation of the “Go Global” policy, launched in 2001. Chinese government “Go Global” policy encourages their domestic enterprises to go global, investing outward following its own commercial strategies but also fitting in China diplomatic goals and national interests, Ilhéu (2010).

The economic objectives of this type of investment is well expressed in the guidelines published by the State Administration Reform Commission and the EXIM Bank of China in 2004, these guidelines promote the Outward Foreign Direct Investment (OFDI) that develop “(1) resources exploitation projects to mitigate the domestic shortage of natural resources, (2) projects that encourage the export of domestic technologies, products, equipment and labor, (3) overseas R&D centers to utilize internationally advanced technologies, managerial skills and professional contacts, and (4) mergers and acquisitions that could enhance the international competitiveness of Chinese enterprises”, Ilhéu (2011:42).

Chinese government identified Portuguese culture and language business network as a valuable one for Chinese international ventures strategy. This network is a kinship of presently around 243 million people in geographically strategic locations; Angola, Mozambique, Cape Verde, Guinea Bissau in Africa, namely Angola and Mozambique, members of Southern African Development Community (SADC), are China’s important economic partners in Africa, for the supply of raw materials, energy and food products, particularly Angola, which is China’s single largest oil supplier and also a future to be interesting market for Chinese firms; Portugal a member of EU other strategic partner for China a bridge to EU institutions and 27 European countries with a population around 500 million consumers with high purchasing power; Brazil in South America, with a population around 191 million people is a currently one of China’s largest economic partners of China being a strong supplier of oil and other raw materials and food products opening also the door to American continent by being a member of Southern Common Market (MERCOSUR); East Timor is an oil supplier in front of Indonesia and Macao arises as China’s strategic dialogue platform to these countries. As affirmed by Qin Gang (2009) “Macao plays a unique and constructive role in promoting economic and trade cooperation between the Chinese mainland and Portuguese-speaking countries”.

One good example of this strategy is the recent acquisition of 21.35% of EDP, the Portuguese Electric Company by the China Three Gorges Corporation, for the value of US\$3.5 billion, is the biggest China outbound M&A in the utility and energy sector, and marks the first significant acquisition of a southern European company by a Chinese mainland corporation, according with the Wall Street Journal (2011: December 23). The same source also refers that the real interest for Three Gorges in EDP isn’t Portugal, but

Brazil. The acquisition gives to China Three Gorges access to EDP's market in Brazil where this Portuguese company is a strong power producer, also Sinopec, or China Petroleum & Chemical Corp., invested \$5.2 billion for buying 30% of Brazilian unit of the Portuguese oil and gas energy company Galp Energia SA in 2011, the largest Chinese outbound M&A in that year. Other huge Chinese investment in Portugal is being made by China the State Grid which acquired 25% of REN the Portuguese National Electric Transmission Grid, for the price of €387,15 million and the commitment to joint REN internationalization projects namely in Angola and Mozambique, as well as invest €12 million in a R&D center in Portugal. The Industrial and Commercial Bank of China is also negotiating the entry in the Portuguese Bank Millennium with a good network of branch offices in the African Portuguese Speaking Countries (APSCs).

But since China rose as a powerful player in APSCs, it can also be seen as competitor of Portugal's and Brazil business objectives in these countries. Many Western companies consider that the *modus operandi* of the Chinese companies there, backed by the Chinese government, offering various types of aid and assistance linked with outward foreign direct investment (OFDI) create unfair competitive practices, considering that their governments and official institutions don't approve this kind of assistance and so they don't have access to the same kind of incentives. In fact this competition should be explained by the specific characteristics of Chinese OFDI drivers that goes beyond Dunning (1977; 1993) theoretical framework, namely the Chinese capital market imperfections, special ownership advantages of Chinese MNEs and institutional factors Buckley *et al.* (2007). Capital imperfections could be found in China, as State Owned Enterprises (SOEs) can access capital below market rates. Chinese low cost capital for Chinese firms mostly SOEs can explain that acquisitions are often a chosen mode of entering a new market, and that the perception of risk is not as rigorous as it is for firms of industrialized economies. This turns on to be an ownership advantage of Chinese MNEs, being others, the flexibility and the networking skills of the Chinese Diaspora. State direct or indirect influence over these firms, is going to drive their decision of outward investment and its location pattern with criterions that are not profit maximization as in the general theory.

With the objective of promoting trade and investment and implement common projects in various domains between China and Portuguese-Speaking Countries (PSCs), the Forum for Economic and Trade Cooperation was created by the Chinese government in 2003. This Forum based in Macao, follow the theoretical rational that internationalization is largely driven by networks of relationships, very often based in a share culture and language and that the network relationships of a firm is capable of providing the context for its international activities; Coviello & Munro (1995), in fact the inter-firm relationship seems to influence its market selection and the mode of entry, in the chosen markets Bell (1995).

Matias (2010: 19) concluded that “Through the Forum, China has set up a kind of lightweight and flexible para-regime, able to effectively spread China’s soft power” and “Despite the low level of institutionalization, by using a multilateral institutional mechanism and by bumping up the ideas of a mutually profitable Sino-Lusophone partnership with Macao as a platform, China is instilling a looming narrative. Here, ideas and interests walk hand in hand. All in all, mutual benefits in a win-win situation bring a bolder power projection. China emerges in this process as a reliable and responsible partner and paves the way for keener political support from these countries in the international system”.

Since these models require a “*win win*” perception of the results of the mutual cooperation to fit into Chinese soft power strategy our research questions are “What is the Portuguese perspective of the utility of Macao Forum? What is the perception of the Portuguese companies on the outcomes of Portugal’s participation? Can the Forum contribute to the exports growth and Foreign Direct Investment (FDI) expansion of Portuguese companies in China, in Macao, in the PSCs? Can Macao Forum play the role of economic platform between China and the Portuguese Speaking Countries? Can Macao Forum increase the business networks between China, Macao and PSCs? What economic results Portuguese companies expect to obtain by its participation in the Forum?

## LITERATURE REVIEW

The diplomatic objectives of this kind of investments are clear, since China diplomatic strategic approach follows a soft and smart power models, being these models defined the first as the ability to get what you want through attraction, saying the ability to charm with the objective of shaping the preferences of others, rather than coercion or payments Nye(2004), and the second as the intelligent integration of diplomatic, defence and development networks with hard and soft power tools (Nye 2011).

Soft power networks utilizes persuasion influence to get things done in those countries, it utilizes the attraction of one country ideology, political system and culture and the attraction the one country’s values ideas and rules and smart power networks builds a logic system of alliances. Nye (2004) call this attractiveness a nations “brand” and it can be obtained through soft power tools such as government funded programs to influence public opinion abroad and its growing aid and trade.

One view among Chinese scholars is that soft power is a broader concept, that includes economic and diplomatic references Zhang (2010), it means anything outside military and security actions and, should be purposefully cultivated and build up, targeting foreign countries popular and elite cultures (Mingjiang 2008). Accordingly with

Kurlantzick (2007), Chinese soft power can be high this means directed to the elites of a foreign country or low oriented to charm its general public, he says that Beijing offers the “charm of a lion”.

The Chinese soft power utilizes as persuasive tools the humanitarian support, the culture, the bilateral, the multilateral diplomacy and the OFDI. This model of global cooperation requires a new bilateral and multilateral cooperation strategy based in a mutual perception of mutual benefits for all the participants that means a “win-win” situation for everybody in the deal.

Cheng (2011) article defend that the basic goal of international relations rising power strategy of a state that rises in the industrial era is to achieve economic development “obtaining broad-based markets, including markets for the sale of goods, the purchase of resources and production materials, as well as the foreign investment and currency markets relevant to production and sales” (p.411). In the name of economic interests states in industrial era follows one of the four strategies; territorial expansion, taking by force, construction of international order, or spontaneous expansion of external markets and trade, the first three are hard power policies with an aggressive foreign policy and military power, the fourth is a soft power policy that relies in expansion free market competitive strategies, they try to prevent external pressure or threats from other major power states, that are afraid of their economic power rising, by minimizing dissatisfaction in those states with assuring a expansionist strategy that doesn’t result in a zero but a “win-win” game.

As great powers rise according an economic principle they accumulate wealth and different economic choices are made on the base of costs and benefits fitting their strategies. China has a vast potential domestic market yet to be developed both in dept and breath, and is the world factory leading the world industrial production, with 19.8% of the world industrial add value. Their products are extremely competitive in the global markets, having the world higher market share in products like toys, shoes, garments, mobile batteries, washing machines, computers components, navy construction, motorcycles, iron and steel bars among others, what shows that external markets can be conquered by trade. The problems of China more than markets to sell are resources and energy to produce.

Satisfy this kind of needs domestically at the pace that their economy takes off is almost impossible and the choice is to increase its presence in regions where it is possible to expand channels of resources and energy supply. For overcoming the resource constrains of firm’s international expansion, the use of alliances with firms that have the local knowledge, has been appointed as a key.

Lu and Beamish (2001) concluded that alliances with local partners can diminish firm’s local knowledge gap, by accessing alliance partner’s knowledge base, firm’s could experience better performance and minimize mistakes, and this strategy has been found to be an effective way to enter new host countries. Alliances are also an important

mean, of overcoming other resource capability deficiencies, such as capital, equipment and other tangible assets, through resource sharing between partners in the alliance. As a mode of international market entry, strategic alliances allow firms to gain capabilities and assets that are not easily available in competitive international markets in a number of areas such as possession of product-market knowledge, access to complex product development capabilities, access to market and distribution channels, or to gain marketing skills, reputation or other intangible assets (Bradley 2002).

Elg and Johansson (2001) refer that “if a company does not possess the skills and resources necessary to meet all new global challenges, forming international strategic alliances is often put forward as a way to managing the process of globalization”, (p.93). A critical issue is how to find a compatible partner since the partner compatibility is the most important factor in building cross-cultural cohesive ventures and in determining the effects of complimentary resources on alliance performance (Sarkar *et al.* 2001; Rodríguez and Wilson, 2002).

Many alliances fail to achieve their objectives because partners underestimate the efficiency of working together, and there is a lack of common interpretation of each other’s strategic intents, which is crucial in global markets (Sirmon and Lane, 2004). Performance in international strategic alliances is also influenced by the degree of cultural distance among partners; cultural dissimilarities may lead to different objectives, management styles, operating methods and strategic choices (Rodríguez and Wilson, 2002). Thus national cultures differences between alliance partners can challenge the development of successful relationship (Sirmon and Lane, 2004).

The classic step by step model of internationalization from Uppsala school, theoretically based in the behavioral theory of the firm, as presented by Johanson and Wiedersheim-Paul (1975), and Johanson and Vahlne (1977), emphasizes learning, for example familiarization with the national cultures as the driving force behind the internationalization process of firms (Barkema *et al.* 1996). According with these authors most firms experience a large amount of uncertainty when operating internationally and in order to reduce uncertainty, they move to distant countries only after having established a presence in neighboring countries. Firms initially target neighboring and subsequently will successively enter countries with increasing “psychic distance”, in terms of cultural, economic and political differences and also to their geographic proximity (Bell 1995).

By exporting first out of the nation state for example into the immediate neighboring markets, the firm can reduce its perceived risk and the overall uncertainty of exporting see Paliwoda (1993: 30) “It was expanding, but within a region where language and cultural values were consistent with one’s own”, again “The question of regional expansion is affected by the personal perception, individual characteristics and experience of the decision maker”. As referred by Johanson and Vahlne, (1977: 24), “we have observed a similar successive establishment of operations in new countries”, is important to refer that in this context “the time order of such establishment seems to



be related to the psychic distance between the home and the import/host country ...the psychic distance is defined as the sum of factors preventing the flow of information from and to the market. Examples are differences in language, education, business practices, culture and industrial development”.

Psychic distance from a market is a function of the uncertainty that the market represents to the entrant, the more psychically distant the market the greater the uncertainty the new entrant has to face (Liesch and Knight, 1999). Accordingly with Bell (1995), research “psychic distance”, is a key factor in the selection of export market, but has become much less relevant as global communications and transport infrastructures improve and as markets became increasingly homogeneous.

Some particular countries to develop international business might be chosen by historical preferences, geographic or physic closeness and for psychological and cultural reasons. Many countries prefer to sell to neighboring countries because they understand these countries better and proximity allows a better cost control. For other companies psychological proximity rather than physic closeness determines choices, the compatibility of language and culture as well as historic links are often more important.

To overcome these pitfalls recent conceptualization propose informal alliances “network” approaches to internationalization, “these postulate that interconnected exchange relationships evolve in a dynamic, less structured manner and that increased mutual knowledge and trust lead to greater commitment between international market actors” (Bell, 1995: 62).

Achrol and Kotler (1999: 148) defines the network organization as “an independent coalition of task-or-skill-specialized entities (independent firms or autonomous organizational units) that operates without hierarchical control but is embedded, by dense lateral connections, mutuality, and reciprocity, in a shared value system that defines «membership» roles and responsibilities”. Jarillo (1988), conceptualizes networks as a mode of organization that can position firms in a strong competitive environment and refers that the critical component that makes relationship takes the form of strategic network instead of that of a typical market is the high degree of perceived opportunity for joint value-creation between organizations and he defines strategic networks as long-term purposeful arrangements to allow firms to gain or sustain competitive advantage vis-à-vis their competitors outside the network.

The main assumption of network theory is that international business takes place in a network setting, with three basic variables; actors, resources, activities. Differences business actors are linked to each other’s through direct and indirect business relationships. Because of parties gradually know mutual capabilities and strategies, this process of interaction build mutual trust and knowledge as well as an increasing commitment of resources to the relationship.

The linking force that glue networks is a sophisticate pattern of interdependence which is the basis of social relationship rules used to get things done, implying that firms are



prepared to interact and expect each others to do so, is the firms mutual knowledge and or mutual trust in each other interests (Richter, 1999).

Most discussions of cooperative ventures as networks are made around social control processes involving “reciprocity norms, personal relationships, reputation and trust”, (Tallman and Shenkar, 1994: 107). Clan mechanisms of control based on trust development over an extended relationship between partners is described by Jarillo (1988) as “long term relationships, carried out through non-specific contracts”, (p.34) and it normally results from perceived fair dealing that generates trust and contributes to long-term life of the network.

The growing role of global networks in international business is today increasingly facilitated through formal or informal partnerships with foreign distributors, trading companies, complementary manufactures, specialized firms, as well as buyers and sellers. Doz, *et al.* (2001) refer that the success in the future, for the existing international firms depends on their ability to access knowledge outside their subsidiaries and connect it with the skills obtained through their international network.

Network connections may complement firm’s specific capabilities and enable firms, especially small firms to establish themselves in a foreign market, by reducing transaction costs, entry barriers, shortage of strategic assets and encouraging FDI. Network linkages can be utilized to obtain logistical support, market information, technological assistance to support overseas operations and top gain economies of scale and scope.

Iborra *et al.* (1998) consider three types of networks, of interchange, of communication and social. The networks of interchange and communication are formalized between different partners and participants, but the social networks are informal and the different members are part of a close socio-economic environment, and common objectives, trust and moral commitment not contracts bound them.

These types of networks are much more flexible then the formalized ones, which make them more efficient in terms of adjustments to environmental changes. As an example of this kind of network we can mention, Yeung (1997: 41) “Chinese business in Asia is largely embedded in business networks which rely substantially on pre-existing social relations in terms of family businesses, ethnic ties, trust mechanism and institutional bondage”. From restaurants, to real estate, to plastic-sandal makers, to semiconductor manufacturing, the “Chinese Commonwealth”, consists of “many individual enterprises that nonetheless share a common culture” (Kao, 1993: 24).

These social exchange relations evolve in a slow process, starting with small transactions in which trust is not important because risk involved is neglectful and in which both partners can begin to know each other’s and test their trustworthiness, enabling them to expand their relation and engage in major transactions. Friendship bonds can be created and the social relations between firms are resultant of the individual relations developed in this process (Easton, 1992). So this informal

cooperation is the result of growing awareness of mutual interests, that takes time and commitment and is developed by those who are directly involved in business exchange between firms usually small private entrepreneurs or in big corporations managers at the middle level, in contrast with formal cooperation ventures, which are normally headed by higher management level (Håkansson and Johanson, 1988; Holm *et al.*, 1996).

As mentioned networks usually have a social dimension characteristic, but they may also have a cultural one in the sense they might have beliefs about the basis of social activity and behavior rules within the network Easton (1992), as the referred example of Chinese Overseas Business Network. We can also find affinities between the Overseas Chinese type of network and the small firms networks of Latin catholic countries is not surprising since industrial structures of Chinese societies and those countries are very similar; firms tend to be small family businesses, being always difficult to recruit professional managers from outside the family or the clan because of lack of trust, and the existence of big economic units is more often dependent of the role of State or of foreign investment, than of family entrepreneurship (Fukuyama, 1995).

Other strong cultures have their business embedded in culture and language networks. Diaspora networks of kinship and language have always been a potent economic force making easier to do business across borders, examples can be referred as the diasporas of the Chinese, Indian, Jews people among others “they have three lucrative virtues”, “they speed the flow of information across borders”, “they foster trust”, “they create connections that help people with good ideas collaborate with each other within and across ethnicities” (Economist, 2011: 68).

Socio-cultural values are a major aspect of firm’s environment, Begley and Tan (2001). Societies have collective cognitive styles that affect perception, behavior, thinking patterns and business practices which characterize their national cultures. As mentioned previously, national culture, that has become an important concept in international business literature, Roath *et al.* (2002), refers to deeply set of values that are common to the members of a nation and constitutes a system of shared norms, values and priorities, a code of expected behaviors in that society.

Social scientists define national culture as “patterns of thinking, feeling and acting rooted in common values and conventions of society”, Nakata and Sivakumar (2001: 257). According with their findings, national culture influences marketing activities including international marketing strategy, market entry decision, innovation and product development approach. For instance Hofstede (1991), refer that 50% of differences in management attitudes, beliefs and values are explained by national cultures. Ralston *et al.* (2008), view culture as beliefs and values that are widely shared by a society at a particular time and are shaped by factors such as religion, proximity, history and education.

These shared beliefs are learned since childhood through family example, school education programs and social gathering, Sirmon and Lane (2004), “culture includes

both conscious and unconscious values, ideas attitudes and symbols that shape human behavior and pass from generation to generation” (Bradley, 2002: 89).

Our values and attitudes help to determine what we think is good or bad, right or wrong, what to buy or buy not, what is important and what is desirable, and they are interrelated with some aspects of culture, like religious creeds and beliefs. The literature on “business ethics shows extensive proof of the influence of nationality on values that is feelings of right or wrong” (Hofstede, *et al.*, 2002: 787). Religion is a main string of culture, understanding religion means examining our deepest convictions. Language has been described as a cultural mirror that affects the content and nature of the culture, because language is not only a communication tool, but also a code of ideas. Material culture, the material things that people create and use is very much related to aesthetics and has various important implications in market trends and marketing offers, such design in Italy, glamour and fashion in France, technology in Germany, Zen style in Japan, Bradley (2002).

A person’s perception of market needs is framed by his or her own cultural experience, Keegan and Green (2000). Cultural understanding of host country and adjustment to its business practices has the ability to transform “cross-border economic transactions into enduring relationships embedded in a social context”, Skarmeas *et al.* (2002: 772).

The difficulty is that our own culture determines the way we understand other cultures, because we have to interpret other cultures signals in terms of our system of values, our creeds and beliefs what constitutes our *Self-Reference Criterion*, Bradley (2002). As mentioned by Cateora (1993: 15), “The primary obstacle to success in the international marketing is a person’s Self-Reference Criterion (SRC), in making decisions” the cultural references, past experience, information and knowledge affects, the capacity of the decision maker of seeing a foreign market characteristics in its true light. It is very difficult to understand and deal with SRC because as per Cateora (1993), it is like an “iceberg” only the least part of it is visible, and the most important part of it, the base, cannot be seen, so is crucial to recognize its existence and try to act carefully using a cross cultural attitude, and be aware of the need to be sensitive to cultural differences is a must, if a firm wants to be successful in foreign markets.

Cultures differ widely in the extent to which unspoken, unformulated and inexplicit rules govern, how information is handled, and how people interact and are related to each other. For a foreign the facility of understanding and communicate in a culture is inversely related to the importance that culture places on “silent language” and “hidden dimensions”, Bradley (2002: 102), for example China and Japan are high in these dimensions and Germany and US are low.

Cultural distance encompasses differences in religion, language, material culture, work ethics, social structure ideology and values, between the home country and the host country, Ekeledo and Sivakumar (1998). Related to cultural distance is psychological distance, identified as “factors preventing or disturbing the flows of information

between firm and market”; Dow (2000: 52), factors that can explain the lack of direct communication with existing and potential buyers, or the lack of access to general market information. Perceived distance is measure in terms of psychic distance and the firm’s tacit knowledge of host country culture. Faced with the uncertainty that arises from an unknown culture, not feeling comfortable with economic system and business practices the decision makers may be unwilling to commit substantial resources in that host market, since such commitment would reduce firm’s flexibility and consequently ability to exit without substantial losses if the host country shows unattractiveness.

Cultural distance is considered to influence firms desire to reduce the level of uncertainty by using various control mechanisms, for instance cultural distance influences the firm’s view that a contract is a control mechanism and a way to manage the relationship, “the greater the cultural difference between the home countries of the manufacturer and its foreign distributor, the more likely the manufacturer will need to emphasize the legal dimension of relational governance” (Roath, *et al.*, 2002:10). High degree of cultural distance may lead the firm to insist upon a more formal contract structure.

Although there are other forms of measurement, literature shows the preference of academics for trying to explain cultural variety and distance through the utilization of Hofstede (1980; 1991), dimensions.

Hofstede (1980), four basic cultural dimensions constitute the most widely accepted organizational culture theory, namely power distance index (PDI), individualism (IDV), masculinity (MAS) and uncertainty avoidance index (UAI) as follow:

- |   |
|---|
| 1. “Individualism versus collectivism” the value of individual’s identity and rights, compared with those of the group, cultures high in collectivism are group oriented. Members of more collectivist cultures tend to protect one another more and threat out-group members more harshly than do individualistic cultures. The relational emphases in collectivist societies justify for instance strong network ties between businesses and customers (Nakata and Sivakumar 2001). |
| 2. “Uncertainty avoidance”, which basically measures tolerance for risk, cultures with high uncertainty avoidance tends to seek ways to create closed protective ways to control their environments. To reduce uncertainty SMEs engage in coalition activities such as alliance formation (Steensma et al., 2000).  |
| 3. “Masculinity versus femininity”, high masculinity cultures favor material achievements; femininity cultures value quality of life and relationships.   |
| 4. “Power distance”, indicates the tolerance for social hierarchy and class structures, high power distance cultures, exhibit class and power differences by position on the hierarchies and social standing that tend to close themselves to outsiders.  |

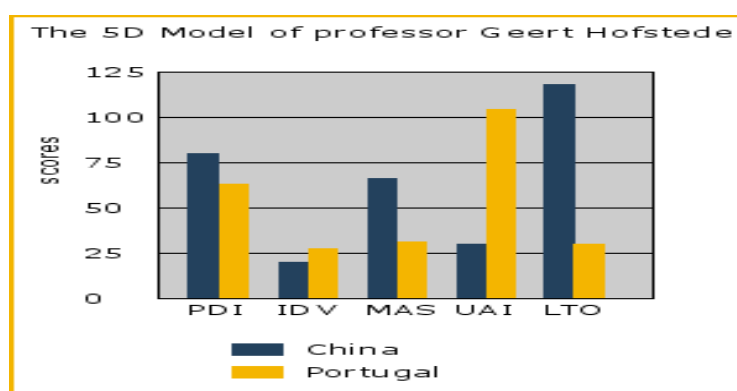
Hofstede (1991), mention a fifth dimension found in a Pan-Asian study, the Confucian dynamic or long-term orientation (LTO), the positive pole of this dimension, represents values such as thrift, persistence, loyalty and are oriented for the future where the

negative end represents conservativeness, tradition and are oriented by the past. Ralston *et al.* (2008), refer that the primary influence of Eastern cultures is Confucianism which focus good-of-the-group orientation (collectivism) and from which derives a primary contrast underlying a culture distance with the Western Cultures that have a good-of-the-individual orientation (individualism).

Collectivist societies developed the value of “face” with origins in Chinese culture, is the value that better predicts behavior and conduct business negotiations in East Asia, but can be considered a universal value. As mentioned by Begley and Tan (2001:), theory of face provides a model to connect socio-cultural dimensions to individual decision making, face is defined as “the evaluation of self based on internal and external (to individual) judgments concerning a person’s adherence to moral rules of conduct and position within a given society” (p. 538)

Complex and intangible, culture has been difficult to conceptualize and scale, measuring difference between cultures presents a great challenge by obtaining standardized measures is possible to tangibilize cultural distance and utilize it as a tool to bypass culture complexities, and define marketing and entry mode strategies (Shenkar, 2001).

Hofstede (1994), give us insights into other cultures and allow us to formulate a cross-cultural analysis between cultural dimensions of home and host countries. Utilizing Hofstede’s model we can try to tangibilize the cultural distance between China and Portugal and we can see that although Portugal is a Western country in dimensions such as high power distance and high collectivism the behavior of their societies is not very different.



*PDI-Power Distance Index, IDV-Individualism Index, MAS-Masculinity Index, UAI-Uncertainty Index, LTP-Long-Term Orientation.*

*Note: LTO measure only exists for some countries*

Countries where national cultures are characterized by collectivism, high uncertainty avoidance, low masculinity and high power distance have been deemed to have the most effect in social networks constructs (Money, 1996), which the case of Portuguese and Chinese cultures although some differences should be analyzed namely the Portuguese one is much higher in uncertainty avoidance and has smaller masculinity values, meaning it has a lower risk tolerance and favors more quality of life and relationships than material achievements, which means that their networks may be less oriented for business achievement than the Chinese ones.

Being acquisitions a chosen mode of Chinese firm's strategy to enter a new market it can be a more expensive way to enter the market and with risks due to possible the lack of transparency of the real market and finance situation of the local firm, accordingly with Woodcock *et al.*, (1994), the acquisition firm has a cost associated with the risk of paying too much for the target firm. Also the process of integration can be complicated due to the difficulty of integrate two management teams with differences in language, culture and practices, according with these authors (p.255) "strategic implementation and organizational cultural differences make it very difficult for organizations to merge efficiently and effectively" and studies empirically found that "post-acquisitional performance was negatively influenced by the two firms top manager's divergent views of organizational culture".

Hill *et al.* (1990: 122-123), refers that "the greater the perceived distance between home and host country, the more likely it is that a firm will favor licensing or a joint-venture over wholly owned subsidiary". International joint-ventures (IJV) appear to be an alternative entry mode and arise especially in difficult markets, and they are motivated by the desire of the international partner to have access to knowledge of local market and culture as well as to local distribution channels. But also in this mode of entry cultural distance is very important, beginning with the dilemma of choosing a suitable partner for the venture, mostly when choosing a partner from far distant cultures, how to find local firms, how to match with strategic objectives of the partner and to cope with its operational routines, how to specify and detail the project to be developed in the alliance, how each firm approaches processes involved in the value-creating activities of the alliance, are problems that arise easily (Smith and Reney, 1997, Sirmon and Lane, 2004). Difficulty also lies on the management of the business and also in the personal relationships of managers from divergent cultures, according with Tallman and Shenkar (1994: 94-95) "cultural divergence is likely to increase the probability of contractual inefficiency" and "when conflicts erupt they are typically much harder to resolve than in conventional companies", this might explain the dissatisfaction of western managers with joint-ventures in China, found by Vanhonaker and Pan (1997).

As concluded by Bradley, (2002: 250) "a major cause of failure in joint-ventures is the inability on the part of one of the partners to understand the external environmental factors: cultural differences; government rules and regulations; the market; sources of



supply; competition, currency movements”. Cultural similarity is important factor in the minimization of this type of conflicts, the greater the cultural disparity the worst the performance of joint-ventures, “the cultural similarity between partners is a critical antecedent for IJV success. The greater the cultural similarity between IJV partners the better the IJV performance” (Lin and Germain, 1998: 189).

The presence of Portuguese companies in China is still very neglectful, in terms of FDI only around 20 companies were identifies and the exports of Portugal to China represent only 0.9% of total Portuguese total exports. The Portuguese companies have the perception that the Chinese market is growing very fast, has a significant dimension for the products their companies deal with, but is not becoming yet very important in their business portfolio (Ilhéu 2005). This author also concluded that, there is a wide spectrum of opportunities in China for Portuguese companies, but the Portuguese companies consider as obstacles the existence of difficulties like “fragmented market, high competition and poor market infrastructure, mostly distribution” (394) and risks such as “lack of transparency of political and legal environment, unknown rules of the games Chinese wants them to play, difficulty of getting *guanxi*, difficulty of understanding local partners because of cultural distance, corruption and disrespect for intellectual property rights” (394).

Chinese market is normally classified as a strategic market but with high entry barriers, raised by physical and psychological distance, due to its geographical, cultural and linguistic distance from the Portuguese companies, which undermines the ability of these companies to exploit it (Govindarajan & Gupta, 2001; Ilhéu, 2006).

To enter a market with high strategic importance but difficult to exploit, an incremental approach is recommended in order to strengthened the required capacities and skills, so the company should first enter a “beachhead market”, this means a market close and very similar to the target one, but with lower risk, allowing the company to learn how to enter and manage in the chosen market, Hong Kong, Taiwan and Macao are examples of “beachhead markets for China” (Ilhéu 2006), because “*Going after a strategic market without the ability to exploit it is generally a fast track to disaster,*” (Govindarajan & Gupta, 2001: 28).

Associated with the “beachhead market” concept, Macao market theoretically have a strategic positioning of business entrepôt to China, which can be enhanced the *Closer Economic Partnership Agreement* (CEPA) signed between China and Macao which allows thousands of categories products with Macao Certificate of Origin to enter Chinese market free of customs taxes, or benefiting from special treatment which is not extended to similar products originated in countries and territories outside China, with the exception of Hong Kong which has a similar statute, the objective is to foster the integration of the Pearl River Delta into a free trade region. Also in 18 service sectors, the entry barriers Macao firms can are very low, since CEPA offers them preferential treatment when they want to extend their activity to mainland China. Ilhéu (2005; 2006)

concluded that the Portuguese companies tend to consider that it is moderately important to utilize Macao as “beachhead markets” to enter Chinese market.

Based on the above literature review we formulated the following research propositions:

<i>P1: Portuguese companies have a positive perspective of on the usefulness of Macao Forum</i>
<i>P2: Portuguese companies have the perception that Macao Forum contributes to the increase of their exports and investment growth in China, Macao and Portuguese Speaking Countries</i>
<i>P3: Portuguese companies have the perception that Macao Forum contributes to the increase of business networks between, China, Macao, and Portuguese Speaking Countries</i>
<i>P4: Portuguese companies have the perception that Macao Forum plays the role of economic platform between China and the Portuguese Speaking Countries.</i>
<i>P5: Portuguese companies have positive expectations on the economic results of their participation on Macao Forum.</i>

## RESEARCH METHOD

This research has been conducted using primarily a quantitative focus that has allowed a statistical analysis in order to scrutinize the relation between the various variables of this research.

### 1. Questionnaire, Sample and Data Collection

This survey has been carried out with the aim of testing the proposals above, we inquired the perception of Portuguese companies in dimensions such as; the usefulness of the Macao Forum for Portugal; the perception of Portuguese firms towards the potential of the impact of Macao Forum on exports and FDI; its role as a business platform between China and the PSC; its contribution the development of a business network in China, as well as in PSC's. The questionnaire included 15 questions, 13 of them with closed answers and two with open answers to know the comments and suggestions of the firms.

We performed a reliability analysis, computing Cronbach's alpha for each set of variables that use scales. Cronbach's alpha is a measure of internal consistency that allows to determinate how well a set of items or variables measuring a one-dimensional latent construct are. Cronbach's alpha varies between 0 and 1. The closer of 1 the coefficients are, the greater the internal consistency of the scale or, if we want, more

certain are we that the various items are measuring the same thing. Cronbach's criterion is that values around 0.60 are to be considered acceptable.

In these groups of variables we can see in Table 1 that Cronbach's alpha is always bigger than 0.60 which means that these set of variables present reliable scales.

**Table1. Reliability Analysis Cronbach's Alpha**

Index	Cronbach's Alpha
Utility	0.947
Exports and Investment	0.782
Business Network	0.898
Economic Platform	0.945
Expectations	0.881

Since firms are the main driving force behind any economic and commercial rapport, we have aimed at understanding their judgement and insight about the participation of Portuguese companies in the Macao Forum, our inquiry were the Portuguese firms currently operating in the Chinese market, (including both special administrative regions of Macao and Hong Kong) and the ones participating in Macao Forum promotional activities such as trade missions, seminars, trade meetings and similar events. This sample was selected by electronic means utilizing data bases available from AICEP, INE, Portuguese Chinese Chamber of Commerce (CCIL-C), which supported us with some contacts of Portuguese firms operating in China accordingly, with the sample profile in Table 2.

**Table2. Technical profile of the sample**

<b>Universe</b>	All Portuguese companies that export and have FDI - 18000
<b>Object Population</b>	Business Portuguese companies that export or have FDI in China and Macau, Hong Kong- around 900
<b>Target Population</b>	From the the object population the companies that participate in Macau Forum activities with identifiable contact by Internet and email
<b>Sample</b>	200 companies
<b>Answers (N)</b>	31 respondent
<b>Sample Selection</b>	Convenience sample
<b>Data Base</b>	AICEP, INE, CCIL-C

The major difficulty in the implementation of this survey was to identify the right interlocutor, generally the export director or foreign markets director. The companies

more cooperative and enthusiastic about this survey were the ones with investments in Macao.

All data has been retrieved through an online questionnaire that was made available to respondents from the 12th of November until the 12th of January 2012. Some industry associations that deal with the Chinese market were also included in the survey. The link that lead to the survey was sent to 200 firms and associations, having obtained 31 valid responses, representing 15, and 5 % of those inquired. This is a satisfactory response index considering the type of sample and the experience of previous surveys of this kind.

## STATISTICAL ANALYSIS

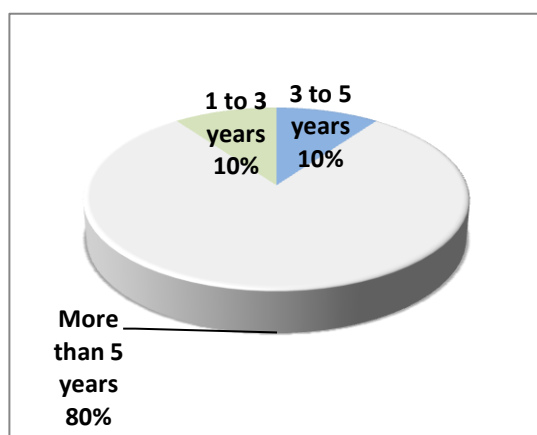
In this research we used a quantitative analysis which allowed us to undertake a statistical treatment where we can conclude for the relations between the different variables. The statistical analysis was made with SPSS software.

Descriptive statistics have been performed to process the data generated from the questionnaire responses; mean comparisons were made as well as analysis of mean indexes for different dimensions. Correlation: Pearson's R: The Spearman rank correlation coefficient was used when assumptions underlying the parametric correlation coefficient were violated.

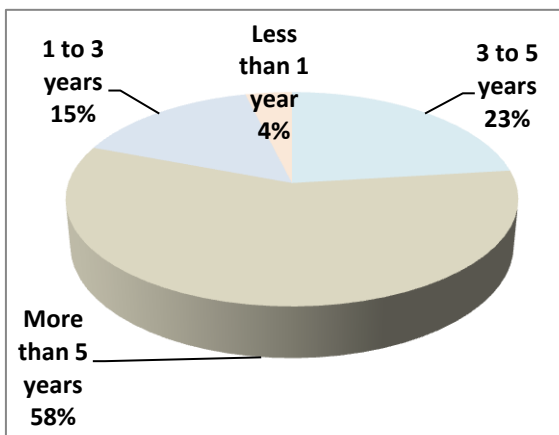
## RESULTS

The majority of firms in the sample are medium-sized (13%) or big-sized companies (40%). Approximately 80% of the inquired firms are internationalized companies, which have been operating in foreign markets for more than 5 years; while 21% classify themselves as being global, from which 62% has been operating in China for more than 5 years, meaning that they are familiar with local market specificities Fig. 1 and Fig.2.

**Fig.1 Years Operating in Foreign Markets**



**Fig.2 Years Operating in China**



This sample was also composed by firms with previous experience in the Chinese market: 43% of them have an office/branch in Macao/Hong Kong, and 34% have a subsidiary in China; 52% have a representative office; 29% hold a production unit and 19% have both office and production. As per sectors of activity, 47% develop business in services sector, 30% in the industry and 23% in primary sector. Most of the inquired firms, (aprox.77%) are acquainted with the Forum but only 10% has already participated in an activity organized by the Forum.

### 1. Perspective of on the usefulness of Macao Forum

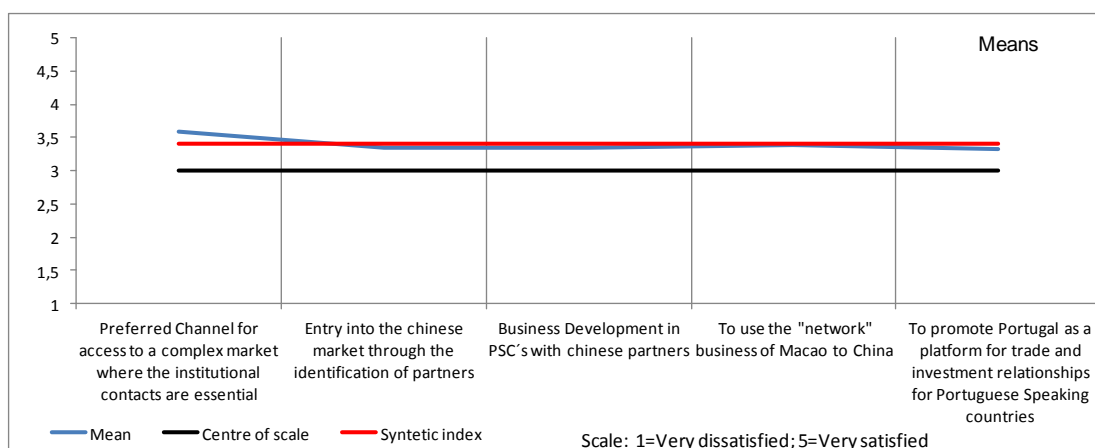
To know verify our proposition 1, the perspective of the Portuguese companies on Macao Forum, we tested an usefulness index which analysed the perception of the Portuguese companies on the usefulness of Macao Forum as preferential channel for access a complex market like China where institutional contacts are essential, the identification of business partners to enter Chinese market, to develop business in PSCs with Chinese partners, the use the Macao business "network" to China and a tool to promote Portugal as a platform for trade and investment relationship for the PSCs. In this sample this index has a Cronbach's Alpha of 0.947 which shows the reliability and consistency of the variables of the index.

We concluded that the Portuguese companies have a positive moderate perspective of the usefulness of Macao Forum, since the index media average was 3.4 points, on a scale 1 to 5, All results are above the centre of the scale (3 points), meaning that all have a positive utility, although, there are some specific aspects that have higher utility and some others have a less favourable utility, which overall, gives a positive outcome (see Fig. 4). The variables that contribute more positively for this usefulness index are the use of Macao Forum to establish "*Preferred Channel for access to a complex market where the institutional contacts are essential*" (3.6 points) and "*To use the "network"*"

*business of Macao to China” (3.4 points), the companies were less positive on the other variables being the less important the usefulness of Macao Forum as a “Tool to promote Portugal as a platform for trade and investment relationship for the PSCs”.*

According to the results obtained, we can consider that our research P1: *“Portuguese companies have a positive perspective of the utility of Macao Forum”* has been verified.

**Fig.3 Perspective of on the usefulness of Macao Forum**

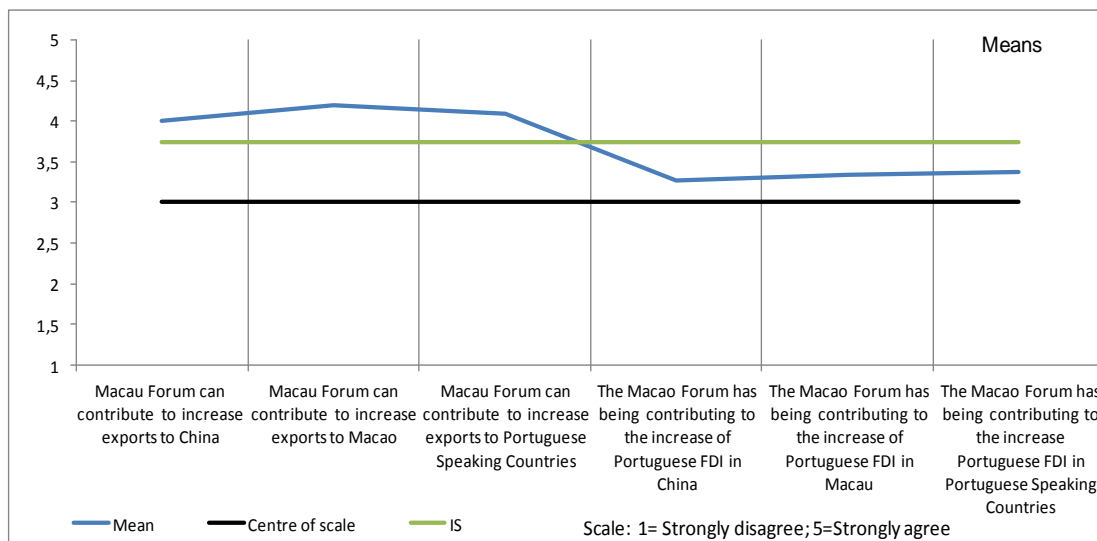


## 2. Macao Forum Contribution to the Increase of their Exports and Investment Growth to China, Macao and PSC's

In order to know the perception of Portuguese companies on the contribution Macao Forum to increase their exports and investments growth in China, Macao and PSC's we created and tested an export/investment index analysing the contribution of Macao Forum to the increase of Portuguese exports to China, to Macao and to PSCs and the Macao Forum contribution to the growth of Portuguese FDI to China, to Macao and to PSCs. We concluded that the Portuguese companies have the perception that the contribution of Macao Forum to increase their exports and investment growth in China is moderately positive, since the verified index media average is 3.7 points on a scale 1 to 5. In broad terms, the opinion expressed by Portuguese firms in relation to the role of the Forum regarding the potential of growth of exports towards Macao, China and the PSC's is very interesting. The majority of firms believe the Forum can play a relevant role in promoting export and investment flows towards all countries involved in this initiative. They also have the perception that the Macao Forum contributes more positively for the increase of the exports than for the growth of the investment, notoriously more for the increase of the Portuguese exports to Macao and less to the growth of the Portuguese investment to China, see Fig.4.



**Fig.4 Contribution of Macao Forum for Increase Exports and Investment Growth**

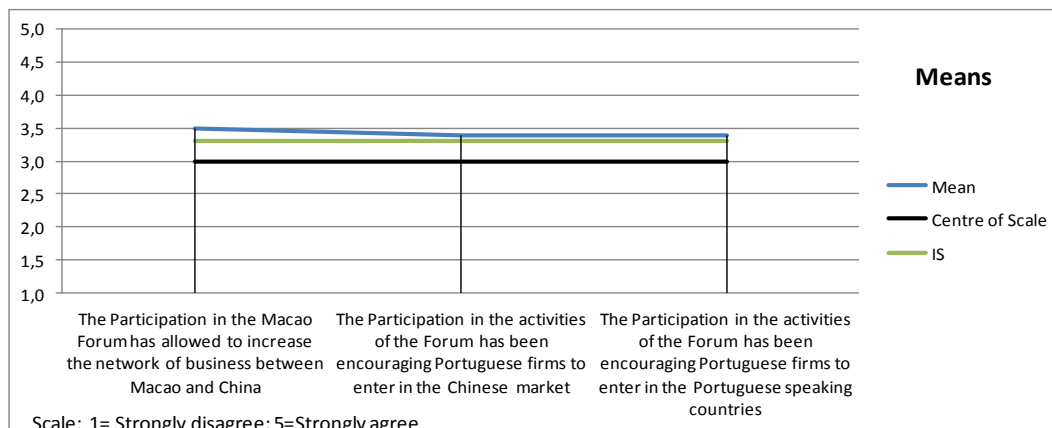


### 3. Macao Forum Contribution to the Increase of Business Networks between China, Macao and PSC's

To analyse the perception of Portuguese companies on the Macao Forum contribution to need business networks between China, Macao and PSCs companies we construct and tested the network index, with variables as “The Participation in the Macao Forum has allowed to increase the network of business between Macao and China”, “The Participation in the activities of the Forum has been encouraging Portuguese firms to enter in the Chinese market” and “The Participation in the activities of the Forum has been encouraging Portuguese firms to enter in the PSC's”.

According to the results obtained, we can conclude that our research proposition 3: is acceptable and that the Portuguese companies have a moderate positive perception (with a index classification of 3.5 points) of the role of Macao Forum contribution to the increase of the business networks between China, Macao and PSCs. They also have the perception that the participation in Macao Forum is more important for increasing business networks between Macao and China, than for encouraging Portuguese companies to enter the Chinese market or the PSCs, Fig. 5.

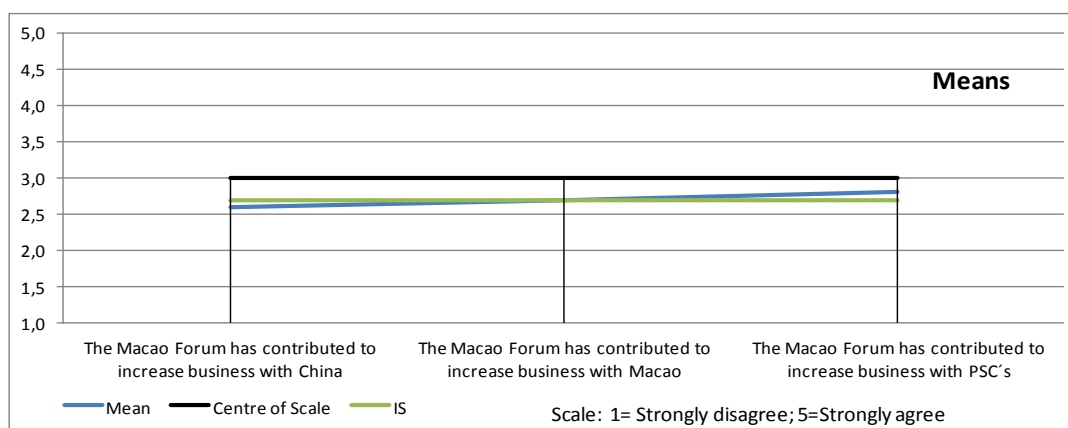
**Fig .5 Contribution of Macao Forum to Increase Business Networks**



#### 4. Macao Forum Role as an Economic Platform between China and the PSCs.

To analyse the perception of the Portuguese companies on the role that Macao Forum plays as an economic platform between China and the PSCs, we construct the economic platform index. In order to know if Portuguese companies think that the Forum contributes to increase business with China, Macao and PSC's, we used an index based on three variables, namely: "The Forum contributes to increase business with China"; "The Forum contributes to increase business with Macao" and "The Forum contributes to increase business with PSC's". The index average result was 2.7 points (on a scale of 1 to 5), which means that companies don't have the perception that Macao Forum play the role of an economic platform between China, Macao and PSCs, as per Fig.6 we can see that do not agree that Macao Forum has contribute with the increase of their business with Macao, or with China or with SPCs. We have to reject this proposition, which seems contradictory with the acceptance we have made of the proposition 2, and can only be explained by the fact that the companies are also considering other kind of business which doesn't fall into exports and investment activities.

**Fig.6 Macao Forum Role as an Economic Platform between China and the PSCs**

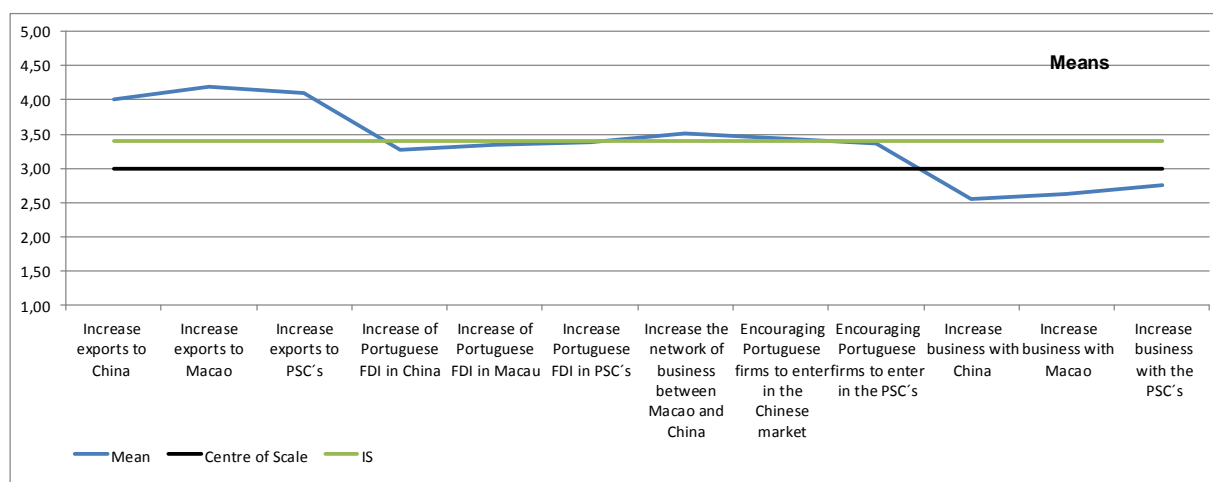


## 5. Expectations of Portuguese Companies on Macao Forum Economic Results.

To research the Portuguese company's expectations on the economic results of their participation on Macao Forum we construct the economic results index that analysed their expectations on growth of FDI, utility perception, increase of exports, increase of business and economic results expectations which are all related.

We concluded that Portuguese companies have in general moderately positive expectations on the economic results of their participation in Macao Forum activities since this index rating is 3.5 points in a scale 1 to 5. In Fig. 7, we can clearly see that the higher expectation falls into the increase of exports, especially to Macao, but also to China and PSCs, the expectations on the growth of FDI is moderately positive for the three economics spaces as well as increase of business networks between Macao and China and the encouragement to enter Chinese market and that the expectations on the Macao Forum activities to increase other kind of business than exports and FDI, with China, Macao and PSCs are negative.

**Fig.7 Expectation of Portuguese Companies on Macao Forum Role Economic Results**



## CONCLUSIONS

With the objective of promoting trade and investment and implement common projects in various domains between China and Portuguese-Speaking Countries (PSCs), the Forum for Economic and Trade Cooperation was created by the Chinese government in 2003. This Forum based in Macao, follow the theoretical rational that internationalization is largely driven by networks of relationships, very often based in a share culture and language and that the network relationships of a firm is capable of

providing the context for its international activities. Being part of the soft power diplomatic approach to the Portuguese Speaking Countries - considering that some of these markets are very important for Chinese economic development, due to the need to expand its foreign markets and, most importantly, to guarantee the supply of critical raw-materials and sources of energy - this charm offensive utilizes as persuasive tools the cooperation for development, humanitarian aid, cultural ties, bilateral and multilateral diplomacy, and the OFDI. In order to be effective, this model of global cooperation requires that every participant perceives it as being mutually beneficial, i.e., a “win-win” situation for all. Therefore to be a positive contributor to the Chinese “*Go Global*” policy this Portuguese kinship network should have the perception that Macao Forum activities contribute to the development of its business objectives - increase exports, investment growth, and other business with positive economic results - with China, Macao and between themselves. Our research was aimed at Portuguese companies (exporting and/or investing in China, Macao and HK) in order to get a clearer idea of their opinion about their perception of the Forum and its potential.

As a result from analysis of the survey, we can draw the following conclusions:

- 1- Portuguese companies have a positive moderate perspective of the usefulness of Macao Forum, namely to establish channels for access to Chinese complex market and to use the business network of Macao to China;
- 2- Portuguese companies have the perception that the contribution of Macao Forum to increase exports and investment growth in China is moderately positive, and it contributes more positively for the increase of the exports than for the growth of the investment, notoriously more for the increase of the Portuguese exports to Macao and less to the growth of the Portuguese investment to China;
- 3- Portuguese companies have a moderate positive perception of the role of Macao Forum contribution to the increase of the business networks between China, Macao and PSCs and are more important for increasing business networks between Macao and China, than for encouraging Portuguese companies to enter the Chinese market or the PSCs.
- 4- Portuguese companies’ don’t have the perception that Macao Forum plays the role of an economic platform between China, Macao and PSCs.
- 5- Portuguese companies have in general moderately positive expectations on the economic results of their participation in Macao Forum activities and their higher expectation falls into the increase of exports, especially to Macao, but also to China and PSCs and slightly into FDI in these economic spaces, they don’t expect to get economic results on other kind of business with China, Macao and PSCs through Macao Forum activities.

Within this set of conclusions, we can consider that Macao Forum can do better for the perception of positive benefits for the Portuguese companies participating in its activities thus creating the perception of a “win-win” situation, reinforcing its utility in the increase of exports to China, growth of FDI in China, Macao and PSCs, the increase of business networks between companies of these economic spaces and the increase of business economic results in other kind of business rather than exports or investment. In the future we intend to conduct similar research on the perceptions of companies of other PSCs.

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